

## Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 L-03 H-01 NSC-05 SS-15

STR-04 CEA-01 PA-01 PRS-01 OES-06 /089 W

-----180851Z 076163 /17

R 170804Z JAN 77

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 5913

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E.O. 11652: N/A

TAGS: EINV, MY

SUBJECT: DEPUTY PRIME MINISTER SPEAKS OUT ON INVESTMENT CLIMATE

1. SUMMARY. IN SPEECH PRESENTED AT FEDERATION OF MALAYSIAN MANUFACTURERS' ANNUAL DINNER, DEPUTY PRIME MINISTER (DPM) DIRECTLY ADDRESSED MANY OF THE CONCERNS FELT BY DOMESTIC AND FOREIGN INVESTORS. HE PLEDGED AMENDMENT OF INDUSTRIAL COORDINATION ACT AFTER CONSULTATION WITH PRIVATE SECTOR AND ANNOUNCED IMPORTANT CHANGE IN WAY APPLICATIONS FOR EXPATRIATE POSTS WILL BE HANDLED. DPM STATED THAT GOM DID NOT EXPECT ITS BUMIPUTRA PARTICIPATION POLICIES TO BE IMPLEMENTED SO AS TO HAMPER EFFICIENCY OF INDUSTRIES BUT CAUTIONED FIRMS AGAINST USING THIS AS AN EXCUSE TO DO NOTHING. HE ALSO ANNOUNCED NEW EXPORT PROMOTION MECHANISMS AND A FULL REVIEW OF GOM'S PROGRAMS IN THIS FIELD. GIVEN GOM'S SUCCESS IN REPEALING "MANAGEMENT SHARES" PROVISION OF PETROLEUM DEVELOPMENT ACT, WE EXPECT DR. MAHATHIR'S PLEDGES TO BE SUCCESSFULLY IMPLEMENTED. END SUMMARY.

2. WITH THE FRANKNESS WHICH CHARACTERISES HIS APPROACH, DEPUTY PRIME MINISTER MAHATHIR BIN MOHAMED EXPLAINED

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GOM POLICIES FOR IMPROVING INVESTMENT CLIMATE IN MALAYSIA IN REMARKS PRESENTED AT ANNUAL DINNER OF FEDERATION OF MALAYSIAN MANUFACTURERS (FMM). DR MAHATHEIR ALSO USED OCCASION TO ANNOUNCE SOME NEW POLICIES AND TO TAKE PRIVATE SECTOR TO TASK IN AREAS WHERE HE FELT ITS PERFORMANCE NOT UP TO SPEED.

3. DPM STATED THAT GOM AWARE OF ITS RESPONSIBILITY TO PROMOTE AND MAINTAIN FAVORABLE INVESTMENT CLIMATE. AS PROOF OF GOVERNMENT'S INTENTION TO REMOVE UNCERTAINTY AS TO ITS POLICIES, HE CALLED AUDIENCE'S ATTENTION TO RECENT AMENDMENT TO PETROLEUM DEVELOPMENT ACT AND PROPOSED AMENDMENT OF INDUSTRIAL COORDINATION ACT (ICA). DPM CAUTIONED AGAINST VIEWING THESE DEVELOPMENTS AS EVIDENCE OF GOM WEAKNESS. HE STATED THAT SUB-COMMITTEE ON THE ICA (UNDER MINISTR OF TRADE AND INDUSTRY) WILL MEET SOON TO DISCUSS PROPOSED AMENDMENTS, INCLUDING IMPORTANT QUESTION OF CONDITIONS TO BE IMPOSED FOR LICENSES. HE PLEDGED THAT FINAL AMENDMENTS TO ICA WILL ONLY BE INSTITUTED AFTER FULL DISCUSSION WITH PRIVATE SECTOR. DR. MAHATHIR POINTED OUT THAT PURPOSE OF AMENDMENTS WAS TO CLARIFY "RULES OF THE GAME". WITH THIS IN MIND HE EXPRESSED SURPRISE THAT ONLY 458 FIRMS HAD APPLIED FOR ICA AS OF JANUARY 5 (OUT OF TOTAL OF ABOUT 4000 FIRMS WHICH WILL HAVE TO APPLY). DPM STATED GOM HAS NO INTENTION OF EXTENDING APPLICATION DEADLINE BEYOND APRIL 30 AND HE URGED ALL MANUFACTURERS WHO HAVE NOT YET SUBMITTED APPLICATIONS TO DO SO.

4. DPM THEN ANNOUNCED POTENTIALLY IMPORTANT MEASURE TO IMPROVE INVESTMENT CLIMATE. AT RECENT MEETING OF HIS CABINET COMMITTEE ON INVESTMENT, IT DECIDED THAT APPROVAL FOR EXPATRIATE POSTS WILL BE GIVEN AT SAME TIME AS PROJECT IS APPROVED. DPM STATED " ACTION COMMITTEE ON INCENTIVES UNDER THE MINISTRY OF TRADE AND INDUSTRY WILL NOW RECEIVE, CONSIDER AND RECOMMEND LIMITED OFFICIAL USE

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TO THE MINISTER WILL NOW RECEIVE, CONSIDER AND RECOMMEND TO THE MINISTER NOT ONLY THE APPROVAL OF THE PROJECT AND ITS APPROPRIATE INCENTIVE BUT ALSO THE NUMBER AND THE DURATION OF TIME ALLOWABLE FOR EXPATRIATE POSTS TO BE EMPLOYED IN APPROVED PROJECTS." GOM HOPES THAT THIS WILL DRASTICALLY CUT AMOUNT OF TIME NEEDED FOR COMPANIES TO GET APPROVAL OF EXPATRIATE POSTS. DPM STATED THAT THIS STEP ONE PART OF "TOTAL PACKAGE DEAL" GOM HOPES TO OFFER INVESTORS. HE STATED THAT OVER NEXT YEAR, GOM WILL ANNOUNCE OTHER MEASURES THAT WILL BE TAKEN TO SIMPLIFY APPLICATION PROCEDURES.

5. ON QUESTION OF BUMIPUTRA (ETHNIC MALAY) PARTICIPATION IN EQUITY, EMPLOYMENT AND DISTRIBUTION OF GOODS, DPM STATED "IT IS NOT THE INTENTION OF THE GOVERNMENT TO PRESS THE ISSUE TO THE EXTENT OF HAMPERING THE EFFICIENT OPERATIONS OF COMPANIES. IT IS CERTAINLY ANTITHETICAL TO GOVERNMENT POLICIES THAT BUMIPUTRA EMPLOYEES MAY BE LESS PRODUCTIVE THAN THEIR NON-

BUMIPUTRA CONUNTERPARTS." HE WENT ON TO SAY HOWEVER, THIS MUST NOT BE USED AS EXCUSE FOR NOT RECRUITING AND TRAINING BUMIPUTRAS, ESPECIALLY AT SUPERVISORY AND MANAGERIAL LEVELS. GIVEN GOM'S EXTENSIVE TRAINING PROGRAMS FOR BUMIPUTRAS AND WITH PRIVATE SECTOR COOPERATION, DPM EXPRESSED CONFIDENCE THAT GOM GOAL OF 30 PERCENT BUMIPUTRA PARTICIPATION COULD BE ACHIEVED BEFORE 1990 DEADLINE SET IN NEW ECONOMIC POLICY.

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6. OF SPECIAL NOTE TO MALAYSIAN EXPORTERS, DPM MENTIONED THAT GOM'S EXPORT CREDIT GUARANTEE SCHEME HAD BEEN IMPLEMENTED ON JANUARY 3 AND THAT EXPORT CREDIT REFINANCING FACILITY WOULD BE IMPLEMENTED LATER THIS YEAR. IN ADDITION, GOM WILL REVIEW CURRENT EXPORT INCENTIVES WITH VIEW TO MAKING THEM MORE EFFECTIVE.

7. COMMENT. DR. MAHATHIR HAS A POSITIVE GENIUS FOR CONFRONTING ISSUES HEAD ON AND IN ADDRESSING THEM IN THE BROADEST POSSIBLE TERMS. IN GNE RELATIVELY SHORT SPEECH, HE MANAGED TO TOUCH ON MOST OF THE QUESTIONS THAT CONCERN FOREIGN AND DOMESTIC INVESTORS IIN MALAYSIA. OF PARTICULAR NOTE ARE HIS REMARKS ON EXPATRIATE POSTS WHICH, IF CORRECT, WILL GREATLY EASE ONE OF MAJOR PROBLEMS FACING NEW FOREIGN INVESTORS -OBTAINING EZPATRIATE POST POSITIONS. HE ALSO ATTEMPTED TO DEMOLISH ANY LINGERING HOPE ON PART OF MANUFACTURERS THAT DEADLINE FOR ICA COMPLIANCE WILL BE DELAYED. THIS WAS CUSHIONED, HOWEVER, BY PLEDGE THAT

ICA WILL NOT BE AMENDED AND IMPLEMENTED UNTIL AFTER  
FULL DISCUSSION WITH PRIVATE SECTOR. GIVEN DEMONSTRATED  
ABILITY OF PM AND DPM TO DELIVER ON THEIR PROMISES  
(ESPECIALLY IN CONNECTION WITH REPEAL OF "MANAGEMENT  
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SHARES" PROVISION OF PETROLEUM DEVELOPMENT ACT).  
DR MAHATHIR'S REMARKS SHOULD BE READ AS SERIOUS  
UNDERTAKINGS WHICH WILL BE IMPLEMENTED. THE TONE AND  
APPROACH TO INVESTMENT PROBLEMS HAS IMPROVED NOTABLY  
SINCE THE ESTABLISHMENT OF THE DPM'S COMMITTEE ON  
INVESTMENTS.  
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## Message Attributes

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**To:** STATE  
**Type:** TE  
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